COUNTY OF LOS ANGELES
TREASURER AND TAX COLLECTOR

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 432
LOS ANGELES, CA 90012
TELEPHONE: (213) 974-2101 FAX: (213) 626-1812

MARK J. SALADINO
TREASURER AND TAX COLLECTOR

June 8, 2005

TO: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Mark J. Saladino
Treasurer and Tax Collector

SUBJECT: 2005-06 TAX AND REVENUE ANTICIPATION NOTES

My office sold $500,000,000 in Tax and Revenue Anticipation Notes (TRANs) today at a 4.00% coupon and a reoffering yield of 2.54%. The lead banker, Banc of America Securities LLC, was successful in marketing the County's TRANs through a negotiated sale at an attractive price. This reoffering yield reflects the fourth lowest interest rate we have achieved since the inception of the program in 1977, and retail investors participated at a higher level than in any prior TRANs pricing.

The pricing of the TRANs benefited from favorable market conditions, which have triggered a rally in U.S. Treasury bond prices and resulted in dramatically lower yields in the tax-exempt market. Comments made on June 6th by Federal Reserve Board Chairman Alan Greenspan signaled possible economic weakness in the markets and helped ease the inflationary fears of investors. Furthermore, investors were confronted with significant amounts of short-term tax-exempt securities maturing in the next several weeks, and only a limited supply of new issuance to offset this void. In California alone, 2005 tax-exempt note issuance is expected to decline 30-35% on an annual basis. The County's TRANs was perfectly situated to take advantage of these market conditions and proved to be a very attractive option to investors.

I have attached copies of the rating reports from Standard & Poor's, Moody's and Fitch, each of which have given their highest short-term ratings to the County's TRANs. I have also attached a copy of the Preliminary Official Statement for this transaction, and will forward the final Official Statement as soon as it becomes available. If you have any questions regarding this transaction, please either contact me directly or you may instruct your staff to contact Glenn Byers of my office at 974-7175.

MJS:GB:DB
z:Board:2005-06 TRANs Pricing Memo to BOS
Attachments
c: Executive Officer, Board of Supervisors
Chief Administrative Officer
Auditor-Controller
County Counsel

Research:

Summary: Los Angeles Cnty, CA; Tax Secured, Note

Publication date: 07-Jun-2005
Primary Credit Analyst(s): David G Hitchcock, New York (1) 212-438-2022; david_hitchcock@standardandpoors.com
Secondary Credit Analyst(s): Jonathan Jacobson, New York (1) 212-438-2027; jonathan_jacobson@standardandpoors.com

Credit Profile

US$500. mil 2005-06 Tax & rev antic nts ser A dtd 07/01/2005 due 06/30/2006 SP-1+
Sale date: 08-JUN-2005

Rationale

The 'SP-1+' short-term rating on Los Angeles County, Calif.'s $500 million 2005-2006 TRANs series A reflects:

- The county's very diverse economy, with a population of 10.1 million, and good long-term creditworthiness ('A+' GO rating);
- A note structure that includes early set-asides of TRAN repayment amounts; and
- Strong 1.80x projected debt service coverage by net general fund cash balances at note maturity, as well as historically conservative county cash flow projections.

The TRANs are secured by a first lien on lawfully available taxes, income, revenues, and other unrestricted money received by the county and attributable to fiscal 2006. The county is not authorized to levy a tax for the repayment of the notes. The county resolution requires the set aside of $174 million for note repayment from the county's first unrestricted money after Dec. 20, 2005; $90 million after Jan. 1, 2005; $57 million after Feb. 1, 2005; $61 million after March 1, 2005; and $118 million, plus accrued interest, after April 20, 2005.

The county exhibits currently favorable economic growth patterns. County employment increased 1.3% in 2004, and the unemployment rate decreased to 6.4%. Home prices have also taken a significant jump in the last year. The net result has been an estimated fiscal year-end June 30, 2005, county general fund cash balance $320 million higher than projected when last year's $600 million fiscal 2005 TRANs were issued.

The county projects strong 1.80x coverage at maturity of the fiscal 2006 TRANs by net general fund cash balances alone, consistent with the high cash coverage of recent years. The county's cash flow projections over the past few years have, in fact, proven conservative. The county's actual cash coverages of previous TRAN issues sold in fiscals 2002, 2003, 2004, and 2005 were 1.88x, 1.80x, 2.61x, and an estimated 2.12x, respectively--higher than projected cash coverages of 1.75x, 1.29x, 1.64x, and 1.60x, respectively, at the time each of the original TRANs was sold. In addition to $416.5 million of projected general fund cash at fiscal year-end 2006, the county has access to other significant internal cash sources if general fund revenues do not meet projections. These additional sources include a variety of other funds of the county, expected to total $1 billion at fiscal year-end 2005, including the tax collector's trust fund and a departmental trust fund, held outside the general fund. Including these resources, 2005-2006 TRAN coverage at maturity rises to a very strong 3.74x.

The county's projection of general fund cash is based on its proposed fiscal 2006 budget, which assumes a 6.2% increase in property tax revenues, a 2.0% increase in sales taxes, and largely uses the governor's revised May state budget proposal for its assumptions on fiscal 2006 state aid, except for $87.9 million in additional cuts proposed by the governor. These cuts relate primarily to reductions in home-supportive services, which the county believes will not be enacted (the county plans to adjust its budget for these items only if the cuts are actually enacted by the state). The county's 2006 property tax projection, in particular, appears relatively conservative based on recent indications. The passage of Proposition 1A in November 2004 has helped shield the county from state aid cuts in fiscal 2006. Proposition 1A allows the state to cut aid to counties for only two years in every 10, and provides significant relief from unfunded mandates or further raids on local county revenue. State reforms have also reduced county workers' compensation costs, following prior years of steep increases. Although rapidly rising health care costs for indigent care in Los Angeles county remain a major concern in the long run, and the county continues to use a portion of prior excess pension fund earnings for budget balancing purposes, in the short-term the county is enjoying its first budget in a number of years without having to take major budget-cutting measures. In fiscal 2006 the county plans to increase capital expenditures and add slightly to the staff. The county's proposed fiscal 2006 budget raises general fund expenditures a still modest 1.8%, and increases total county expenditures about 3%. The county estimates that only about 10.5% of its budget represents discretionary revenue, which nevertheless represents an improvement from prior years. The rest of the county budget consists of the administration of state and federal programs.

The county's unreserved general fund balances on an audited GAAP basis have increased steadily, from $294.3 million at the end of fiscal 1999 to $1.54 billion, or a healthy 14.1% of expenditures and net transfers out, at fiscal year-end June 30, 2004. Unreserved general fund balances increased $222 million in fiscal 2004 alone. On a budgetary basis of accounting, the general county budget, which includes funds other than the general fund, is currently projected by the county to have its budgetary reserves drawn down slightly to $192.0 million at fiscal year-end 2006, or 1.3% of appropriations, from $198.0 million in budgeted reserves at fiscal year-end 2005.

The county invests its operating money and TRAN repayment amounts in the county-pooled investment fund. As of April 30, 2005, the pool had a book value of $18.113 billion and a market value of $18.068 billion; the pool is highly liquid, with an average maturity of 139 days. Investments (as of April 30) consisted of 38.57% in U.S. government and agency obligations, 35.10% in CP, 20.16% in CDs, and 5.97% in corporate notes. About 93.75% of the pool's participants are mandatory participants.

Long-Term Credit Risks

Some long-term credit risks remain, particularly from a scheduled phase out of federal Medicaid waivers on June 30, 2005, and the possibility that welfare caseloads may reverse their recent favorable trends. In addition, the county pension system will require increased contributions due to the eventual phase-out of the use of prior excess pension system earnings credits to reduce county pension contributions. In fiscal 2006, the county plans to use about $200 million of around $700 million of remaining excess prior pension fund earnings to reduce its annual net pension contributions. In future years, pension contributions are scheduled to increase substantially, requiring use of the rest of the remaining excess earnings to fill the gap, until outstanding pension bond debt service begins to decline in 2009 and frees up about $350 million per year for this purpose.

The county health system projects a deficit of $435.0 million in fiscal 2007, although a new forecast is expected June 7. The county is budgeting its first general fund contribution to the health care system from unrestricted general fund revenues in a number of years, for $40 million in fiscal 2006, but this may need to be increased substantially in future years as current health system funds get drawn down, unless other governmental aid is forthcoming or substantial curtailments in services are implemented. The county currently expends substantial sums treating uninsured undocumented immigrants at its health facilities. The county's efforts to close a 100-bed outlying hospital have been stymied by litigation, and while the county has taken other health system cost-cutting measures, various other proposed cuts have proven politically difficult to implement. In addition, the county's major teaching hospital, King Drew Medical Center, has had public questions raised about accreditation and quality issues. In 2002, voters approved a parcel tax to help pay for medical expenditures, generating $198.6 million in 2006, and a 2003 state health care waiver has also produced some temporary savings.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

Moody's Investors Service

Global Credit Research
New Issue
7 JUN 2005

New Issue: Los Angeles (County of) CA

MOODY'S ASSIGNS MIG-1 RATING TO TAX AND REVENUE ANTICIPATION NOTES OF LOS ANGELES COUNTY, CALIFORNIA

$500 MILLION IN SHORT TERM DEBT AFFECTED

County
CA

Moody's Rating

ISSUE	RATING
2005-06 Tax and Revenue Anticipation Notes, Series A	MIG 1

Sale Amount	$500,000,000
Expected Sale Date	06/07/05
Rating Description	Tax and Revenue Anticipation Notes

Opinion

NEW YORK, Jun 7, 2005 -- Moody's Investors Service has assigned a MIG 1 rating to Los Angeles County's $500 million issue of 2005-06 Tax and Revenue Anticipation Notes, Series A. The notes are being issued to fund the County's mid-year cash flow needs and are secured by a pledge of unrestricted, fiscal 2006 general fund receipts. The rating reflects the County's stable financial position, a proposed budget based on conservative assumptions, cash flow projections which reflect that conservative budget, and the board's demonstrated willingness to make significant program cuts when necessary to maintain balanced operations. The County's total liquidity is a strength reflected in the note rating, even adjusting for the County's more expansive definition of borrowable resources than that used by most counties. The County still faces a number of notable long-term challenges, particularly in the health department, but these do not affect the credit quality of its note issue for the upcoming fiscal year. The County's general obligation bonds are rated Aa3. Its pension bonds are rated A1, its fixed asset lease obligations are rated A2, and its equipment lease obligations are rated A3. The outlook on these ratings is stable.

COUNTY'S GENERAL FUND AND OVERALL LIQUIDITY ARE SATISFACTORY AND CONTINUE TO BE MUCH IMPROVED OVER PRIOR YEARS.

After an extended period of cash surpluses in its general fund, the County is once again, very conservatively, projecting that it will experience a cash drawdown of $293 million in fiscal 2005. However, the currently projected 2005 ending cash balance of $693 million is $322 million higher than the original projection of $371 million, because the County's cash position at the beginning of 2005 was much higher than originally projected. Despite the drawdown, the 2005 ending cash balance still represents 5.1% of receipts, which is a comfortable cash position for a county of this size. Also noteworthy is the fact that the County's 2005 projection includes estimates for the last two months which likely reflect some extremely conservative assumptions. Based on recent history, it is likely that the final June 30, 2005 cash position will surpass the current estimates.

The County's overall financial position at the end of 2005 is expected to be essentially unchanged from the previous year. The total general fund balance is not expected to vary significantly from the previous year's $1.9 billion. Within this balance at June 30,2004, we believe that much of the unreserved portion of $1.6 billion represented reserves of varying degrees of availability, which afforded the County ample operating flexibility; although it appears as though the County did not have to rely on them to a significant degree, which itself is a positive credit factor.

Cash flow projections show that the County expects a $276 million reduction in its cash position in 2006, with a year-end cash balance of $416 million or 3.3% of receipts. This projection appears reasonable, reflecting a total increase of 2.6% in Welfare Warrants, Salaries and Benefits and Services and Supplies. The small increase in total expenditures is consistent with the budget, which also includes a notable increase in salaries and benefits. The County's locally generated revenues have increased substantially in recent years, and the County's projections reflect continued robust rates of growth. Property taxes are projected to grow by 4.5% in 2006, while in 2005 they grew by more than 7%. This may be one of the most conservative elements of the current 2006 cash flow estimates. The County estimates an approximately $88 million impact from the Governor's May proposals, most of which the County believes it can address through minor program reductions or higher revenues. Some reserves are also expected to be used.

The amount of money available for interfund borrowing remains ample. This has improved significantly in recent years primarily due to the implementation by the County, in fiscal 1998, of a commercial paper program to provide construction financing for capital projects. Prior to the implementation of the commercial paper program, the County funded construction with internal borrowings executed through the sale of bond anticipation notes to the County's pooled investment fund. This practice reduced the amount of borrowable resources available to meet the County's cash flow needs. For the end of fiscal 2006, the County estimates that gross funds available for interfund borrowing will be $900 million. Combined with the projected cash balance in the general fund, total available liquidity should equal $1.3 billion or 10.3% of cash receipts.

KEY STATISTICS

Projected Amount Borrowed as % of Receipts, FY 2006: 3.9%

Actual Ending Cash as % of Receipts, FY 2004: 7.2%

Projected Ending Cash as % of Receipts, FY 2004: 5.1%

Projected Ending Cash as % of Receipts, FY 2006: 3.3%

Historical Minimum Audit Cash as % of Revenue, FY 2002-04: 5.4%

Alternate Liquidity (Estimated 6/30/06): $ 900 million

Alternate Liquidity % of FY 2004 Receipts: 6.6%

Pledged Set-Aside timing (months before June): 3.2 months

Analysts

Kevork Khrimian
Analyst
Public Finance Group
Moody's Investors Service

Eric Hoffmann
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Fitch Ratings
FitchResearch

Fitch Rates Los Angeles County, California $500MM TRANs 'F1+'
06 Jun 2005 4:00 PM (EDT)

Fitch Ratings-San Francisco-June 6, 2005: Los Angeles County, Calif.'s $500,000,000 2005-2006 tax and revenue anticipation notes, series A, are rated 'F1+' by Fitch. The notes will be sold through negotiation by a syndicate led by Banc of America Securities LLC on or about June 8. The notes are dated July 1, 2005 and mature June 30, 2006.

Fitch's highest rating for short-term debt reflects the sound note repayment structure, strong coverage of all note repayment set-asides, and the availability of substantial borrowable resources throughout the fiscal year. The repayment deposit structure sets aside 100% of principal and interest two months in advance of note maturity. The county's long-term credit quality also is a rating factor, marked by recovery from a moderate recessionary impact, some easing of general fund financial pressures, and moderate year-end reserves. However, the county's health delivery system remains financially draining with future imbalances sizable and a long-term plan still unsettled.

The notes are secured by a first lien on unrestricted revenue received during set-aside months in fiscal 2006. Pledged revenue is projected to total $5.07 billion, covering note principal and interest a high 9.8 times (x). Funds for repayment will be set-aside based on an aggressive schedule beginning Dec. 20, 2005. By Jan. 31, 2006 more than one-half of the estimated principal and interest due will be impounded; the full amount will be set-aside by April 30. The projected cash flow covers all five set-asides well, ranging from 1.5x-7.9x. Also, the county has a substantial pool of resources available for the intrafund loans, with month-end balances in these funds ranging from $1.0-$3.0 billion. The fiscal 2006 cash flow projects ending the year with a good cash balance ($416.5 million). Historically the county's actual ending balances have been higher than originally forecast. The cash flow is based on the county's proposed budget, which reflects recently settled labor agreements with all but one bargaining group, and the State of California's proposed budget as detailed in January 2005 and revised last month.

Los Angeles County's proposed fiscal 2006 budget begins to restore services reduced or limited in growth over the last several years. Spending rises moderately in the priority areas of public safety, criminal justice including added jail beds, and services to unincorporated areas. The budget has far greater certainty regarding state funding for social services other than health than in prior years, a result of the state and local government agreement set last year and the voter passage of Proposition 1A last fall. However, the budget includes some level of uncertainty in its assumptions for health-related programs. The budget assumes that proposed state funding reductions for in-home support services are not enacted and that the pending federal program redesign for Medical reimbursement does not change total funding levels. The county's proposed budget includes adequate funding for recently settled labor agreements, with one bargaining group still without a contract.

Fitch Ratings
FitchResearch

The county continues to be unable to enact a Board-approved restructuring of its extensive health and hospital system. Board actions include the closing of several facilities and inpatient bed reductions at others, many of which have been stalled by litigation and court injunctions. The proposed fiscal 2006 budget assumes no facility changes are made. Nonetheless, the health department faces a sizable and imminent $435.2 million operating deficit in fiscal 2007 if no action is taken. The gap has been lessened by voter approval of Measure B, a parcel tax dedicated to emergency and trauma medical care. The fiscal imbalance is covered with one-time resources in fiscal 2006. Despite the Board's determination to bring the sizable network under fiscal control, achieving self-sufficiency for the system will take continued diligence and likely additional revenue sources. The county's ability to restructure its health care delivery system to one that can operate within available and recurring resources will continue to be a sizable challenge, and a key component of credit quality.

Overall, Los Angeles County has made significant progress toward long-term financial stability in non-health areas. The general fund has run operating surpluses for each of the last eight years and the county expects about break-even operations for fiscal 2005. At $878.2 million, the county general fund's unreserved and undesignated balance provides adequate protection, commensurate with Fitch's long-term 'A' rating for county lease obligations.

Contact: Amy S. Doppelt +1-415-732-5612, San Francisco.

Fitch's rating definitions are available on the agency's free of charge web site, 'www.fitchratings.com'. Published ratings, criteria and methodologies, and relevant policies and procedures are also available from this site, at all times. This document will remain on the free site for seven days.

Media Relations: Christine Pollak +1-212-908-0526, New York